

SPECIAL NOTICE

January 13, 2003

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Important Information on Use Tax

The use tax complements the retail sales tax. Use tax is due when goods, and some services, are purchased and used in the state, but the sales tax has not been paid (e.g., the vendor was not required to collect sales tax). Together, the sales tax and use tax constitute a comprehensive tax on tangible personal property and some services.

During the 2002 session, the Legislature enacted Senate Bill 6835, an act relating to use taxation. Senate Bill 6835 imposed the use tax on the services of installing, repairing, cleaning, altering, imprinting, or improving tangible personal property. Such services in respect to tangible personal property have been subject to sales tax for many years, but not subject to use tax. SB 6835 extended use tax to those same services. Because most of these services take place in state and are already subject to sales tax, the principal intended effect of the bill was to impose use tax on the services of repairing, cleaning, altering, imprinting, or improving property out-of-state if the repaired, cleaned, altered, imprinted, or improved property is subsequently used in the state.

The Legislature has provided several sales tax exemptions for sales of certain kinds of tangible personal property and the services of installing, repairing, cleaning, altering, imprinting, or improving the property. During the implementation of Senate Bill 6835, the Department discovered that some of the complementary use tax exemptions covered only the use of the property, but not services of installing, repairing, cleaning, altering, imprinting, or improving the property. There was no need for use tax exemptions for these services prior to Senate Bill 6835 because there was no use tax on such services.

The following lists those specific goods that have an exemption from the sales tax (and the year enacted) for the services affected by SB 6835, but do not have a complementary use tax exemption for the services affected by SB 6835.

Year	Sales Tax Exemption (RCW)	Use Tax Exemption (RCW)	Subject
2001	82.08.890	82.12.890	Dairy nutrient management equipment
2001	82.08.900	82.12.900	Anaerobic digester
2000	82.08.840	82.12.840	Agricultural field burning machinery & equipment

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Year	Sales Tax Exemption (RCW)	Use Tax Exemption (RCW)	Subject
1998	82.08.0283	82.12.0277	Prosthetics, orthotics, & ostomic items
1997	82.08.810	82.12.810	Air pollution control facilities at the Centralia Steam Plant
1997	82.08.820	82.12.820	Equipment in large warehouses/grain elevators
1996	82.08.02565	82.12.02565	Manufacturing machinery & equipment
1996	82.08.02567	82.12.02567	Machinery & equipment used to generate electricity from alternative fuels
1996	82.08.0283	82.12.0277	Hearing aids
1995	None	82.12.02595	Tangible personal property donated to a nonprofit organization or governmental entity
1995	82.08.0315	82.12.0315	Movie production services
1977	82.08.0285	82.12.0279	Public ferry vessels
1963	82.08.0271	None	Public contracts for watershed protection or flood prevention
1949	82.08.0262	82.12.0254	Interstate transportation equipment
1945	82.08.0258	82.12.0259	Purchases by federal corporations providing aid and relief

It is not clear that the Legislature meant to impose use tax on services currently exempt from retail sales tax with Senate Bill 6835. Therefore, the Department will delay enforcement of the use tax on such services until the Legislature has an opportunity to review this issue.

If the Legislature fails to enact legislation providing complementary use tax exemptions by the end of the Legislature's regular session in 2003, the Department will begin enforcing collection of the use tax. In that instance, collections would be retroactive to June 1, 2002, the effective date of Senate Bill 6835, and use tax would apply on the services regardless of whether the services are performed in Washington or out of state.

At the conclusion of the legislative session, the Department will update taxpayers on the status of the use tax through another Special Notice.

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